

Downing Strategic Micro-Cap Investment Trust



May 2021 Commentary

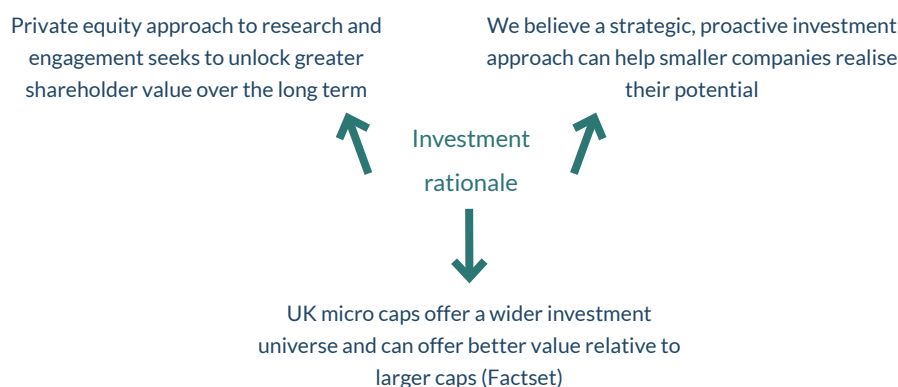
In May, the Company's NAV declined by 0.6% and the share price increased 1.6%. It was a reasonably quiet month in terms of results, which allowed us to progress on work in progress following the significant return of capital from Real Good Food in April.

The most significant positive newsflow in the month came from Hargreaves Services (+11.6%) and Flowtech (+9.6%). Hargreaves announced a very positive trading update in respect of its German joint venture HRMS, which continued to exceed expectations. HRMS has enjoyed exceptionally strong commodity prices, particularly in zinc and pig iron, both of which are used in global steelmaking. Hargreaves has issued a string of good news recently and, as we have previously outlined, we think 2021 will be a pivotal year for the group. Flowtech's share price continued to appreciate post the results in April. We think that there is a compelling story playing out here with numerous revenue and earnings catalysts, on top of conservatively set guidance. We increased the weighting of Flowtech in the month. Post month end, Venture Life (+5.2%) announced the acquisition of BBI Healthcare for up to £36.0 million. This deploys the monies which the company raised in 2020. BBI has several brands targeting woman's health and energy management, is headquartered in Wales, and has a manufacturing facility in Sweden. This is a strategic acquisition for Venture Life and should contribute high margins and returns on capital and a fast growing set of products.

There were a handful of negative contributors in the month but mostly on no new news and, therefore, negative contributions were small. The most significant detractor was from our legacy toehold (-23.4%) which announced very encouraging post-lockdown trading performance, but also a refinancing, to which the market reacted poorly. We continue to see exceptional opportunity in this business which has historically generated very material levels of free cash flow. The refinancing would significantly improve the balance sheet and provide some operating flexibility.

We are currently progressing through the diligence process of a new investment which we think has attractive long-term growth prospects and a wind down value greater than the company's market cap, capping the downside. The company operates in a regulated and high margin niche market and we believe it is misunderstood and mispriced by the market over the long term. We think that there are significant barriers to scaling which provides larger and well financed operators considerable advantages over new entrants. Over the coming weeks we will finalise our calls with the board, majority shareholders, and industry experts.

Opinions expressed in this document represent the views of the investment manager at the time of publication, are subject to change, and should not be interpreted as investment advice.



The Downing Strategic Micro-Cap Investment Trust [website](#) includes further information about the company including annual and half year reports, investor update letters, historic factsheets and video content from the manager.



Lead Investment Manager
Judith MacKenzie

Judith is a Partner at Downing, having joined in 2009 and founding Downing Fund Managers.

Previously she was a partner at Acuity Capital managing AIM-quoted VCT and IHT investments and a small-cap activist fund. Prior to Acuity, Judith spent nine years as a senior investment manager with Aberdeen Asset Management Growth Capital as co Fund Manager of the five Aberdeen VCTs, focusing on technology and media investments in both the public and private arenas.

Company Objectives

- ▶ The Company aims to generate a return of 15% p.a. compound over the long term. Please note that this is a target only and is not guaranteed.
- ▶ The Manager employs a value approach and seeks to be influential through taking strategic stakes.
- ▶ The Company seeks to hold a concentrated portfolio between 12-18 holdings.
- ▶ The Company will typically hold between 3 - 25% of the equity of investee companies, notwithstanding ability to use debt instruments alongside equity.
- ▶ Long-term investment horizon over three to seven years.
- ▶ Buyback mechanism for up to 14.99% of the equity of the Company seeking to closely control discount (at the Board's ultimate discretion and subject to shareholders' annual approval).

Fund discrete performance (%)	Rolling 12-month period 37.78% (31/05/2020-31/05/2021)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2021	1.63	3.80	2.46	7.64	-0.62								15.62
2020	1.26	-10.64	-17.04	8.45	0.64	0.12	-2.09	6.44	-2.09	2.04	8.69	5.17	-2.36
2019	-1.81	-3.59	1.65	4.01	-3.93	-1.20	0.57	-3.75	-2.83	0.72	5.23	5.57	-0.02
2018	-0.98	-1.49	-1.76	-1.15	1.14	-2.24	-1.04	-0.19	-0.51	-7.23	1.07	-4.04	-17.18
2017*					-0.02	-0.12	-0.64	-1.31	-0.16	-1.02	-0.55	0.86	-2.94

* From inception 09/05/2017 to 31/12/2017

Source: Downing LLP. Please note that past performance is not a reliable indicator of future results.

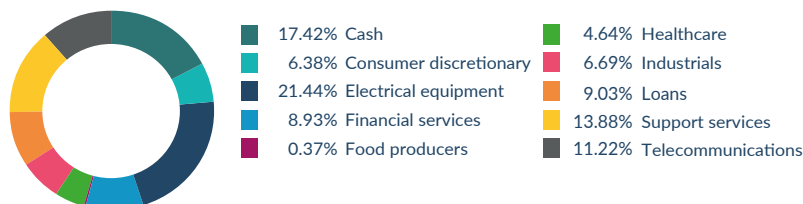
Portfolio summary As at 31 May 2021

Top five holdings

Holding	Sector	% of Company
Voilex plc	Electrical Equipment	13.19
Real Good Food*	Food Producers	9.40
Hargreaves Services plc	Support Services	8.47
Fireangel Safety Technology Group	Electrical Equipment	8.25
Adept Technology Group plc	Telecommunications	7.91

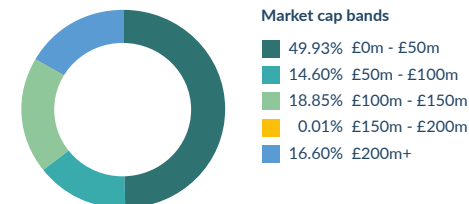
*Holding includes a 9.03% loan note and 0.37% equity split

Portfolio by sector



Source of holding and sector data is Downing LLP.

Market Cap



Source of market cap data is Factset.

Key facts As at 31 May 2021

Launch date

9 May 2017

Morningstar sector

UK Small Cap Equity

Total market value

£40,343,962.63

Total net assets

£46,155,244.90

No of Ordinary Shares in issue

51,889,341

NAV incl. income (starting NAV 98.04p)

88.95p

Market Price of Ordinary Shares

77.75p

Premium (Discount)

-12.59%

Dividends

The company has no stated dividend target. Subject to approval by shareholders at the annual general meeting, a dividend of 0.8p has been proposed for the year ending 29 February 2021 and will be paid to shareholders on 9 July 2021.

Source of data: Downing LLP.

Codes and fees

Ordinary Share ISIN: GB00BF0SCX52

Ordinary Share SEDOL: BF0SCX5

Ordinary Share Ticker: DSM

AMC on market cap: 1%

Ongoing charges

The ongoing charges represent the company's management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average daily net assets during the year.

The ongoing charges for the year ending 28 February 2021 were 1.84%.

Managers

Judith MacKenzie & Nick Hawthorn

Directors

- » Hugh Aldous, Chairman
- » Linda Bell, Non-Executive Director
- » Robert Legget, Non-Executive Director
- » William Dawkins, Non-Executive Director

Financial calendar

The company's annual financial statements will be prepared to 28 February in each year and will typically be sent to shareholders within four months of its financial year end.

The company also publishes an unaudited interim report covering the six months to 31 August each year, typically within two months of that date.

Further information

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